United Nations DP/2010/11

Executive Board of the
United Nations Development
Programme and of the
United Nations Population Fund

Distr.: General
7 December 2009

Original: English

First regular session 2010
19 to 22 January 2010, New York
Item 10 of the provisional agenda
Recommendations of the Board of Auditors

UNDP: Report on the implementation of the recommendations of the Board of Auditors, 2006-2007*

Report of the Administrator

Summary

The UNDP management approach to addressing audit-related risks is consistent with the principles outlined in the UNDP accountability framework and oversight policy (DP/2008/16/Rev.1), which was approved by the Executive Board at its second regular session 2008. The approach included an institution-wide alignment of efforts to address the 'top 11' management priorities, which reflect certain institution-wide risks; clear accountability and responsibility arrangements; regular management review; and monitoring of audit-related risks. While the management initiatives have resulted in continuous improvement, their full effect will be realized in the medium term. UNDP received an 'unqualified' audit opinion by the United Nations Board of Auditors for the biennium ended 31 December 2007. UNDP is continuously engaged in bringing about further improvements to audit-related issues.

The present report provides an implementation status update of the 82 audit recommendations made by Board of Auditors for the biennium ended 31 December 2007. To date UNDP has implemented 90 per cent of recommendations that were targeted for completion by third quarter 2009. Pursuant to Executive Board decision DP/2009/2, the status of the audit implementation is available in tabular form on the Executive Board website. The present report also reviews progress made since the last update (DP/2009/5) in addressing the revised top 11 audit priorities in UNDP in 2008-2009, and outlines management plans to address the remaining audit implementation challenges. The report takes into consideration the report of the Advisory Committee on Administrative and Budgetary Questions (A/64/469) in its review of the report on the implementation of audit recommendations of the United Nations system organizations audited by the Board of Auditors (A/64/98), as well as guidance provided by the UNDP Audit Advisory Committee.

09-63945 (E) 281209

Elements of a decision

The Executive Board may wish to (a) recognize the progress made by UNDP in addressing the top 11 audit priorities in 2008-2009; (b) note the progress made in addressing the audit recommendations of the Board of Auditors (A/63/5/Add.1); and (c) encourage UNDP to continue investing in the professionalization of staff and its sustaining the improvements made in recent years in to address underlying audit risks.

Introduction

1. The UNDP approach to addressing audit-related issues is consistent the principles of the UNDP accountability framework and oversight policy (DP/2008/16/Rev.1) which was approved by the Executive Board in its decision 2008/37. The reduction of the 'top 15' audit-related management priority list to the current 'top 11' list reflects improvements noted in the audit report of the United Nations Board of Auditors for biennium ended 31 December 2007. This is supplemented by clear audit accountability-responsibility matrix (see annex), the periodic management review of progress at the Operations Group chaired by the Associate Administrator, and the quarterly review with the management of the regional bureaux organized by the Office of Finance and Administration of the Bureau of Management. The internal control framework has been further revised for greater clarity and to strengthen controls in key risk areas. Alternative, more sustainable measures to assist country offices with limited or temporary capacity issues included investing in the professionalization of staff in key business areas within the larger UNDP human resources strategy.

2. While the full effect of these management initiatives was not immediate, UNDP was encouraged by the "unqualified" audit opinion awarded by the Board of Auditors for the biennium ended 31 December 2007. UNDP acknowledges that it must do more (within the resource constraints posed in the current fiscal environment) to address existing and emerging audit risks. UNDP believes that one of the end objectives of audit is the assurance of development effectiveness to the programme countries that it serves. To that end, UNDP has – among other measures – made careful investments in strategic resources to ensure the responsive, timely discharge of the management function in an accountable, risk-reduced manner. UNDP is examining the possibility of strengthening strategic human resources management so that its skills mix and staff capacity mirror institutional requirements.

3. The present report summarizes progress made in the implementation of the audit recommendations of the Board of Auditors since the last update to the Executive Board at the first regular session 2009 (DP/2009/5). Pursuant to decision 2009/2, the status of audit implementation has been made available on the Executive Board website. The present report takes into consideration guidance provided by the UNDP Audit Advisory Committee as well as the Report of the Advisory Committee on Administrative and Budgetary Questions (A/64/469) to the General Assembly in its review of the report on the implementation of audit recommendations of the United Nations system organizations audited by the Board of Auditors (A/64/98). The report also reviews progress made in addressing the top 11 audit-related priorities in UNDP

in 2008-2009, and outlines management plans to address the remaining audit implementation challenges.

I. Status of audit recommendations of the United Nations Board of Auditors for biennium ended 31 December 2007

4. For the biennium ended 31 December 2007, the Board of Auditors issued eighty-two audit recommendations (compared with 115 for the 2004-2005 biennium). Of those, 38 recommendations were accorded high priority by the Board of Auditors in its report A/63/5/Add.1. The remaining 44 recommendations were accorded medium priority. Consistent with past practice, UNDP established accountability and responsibilities for addressing audit recommendations, as well as target completion dates and implementation standards. These were shared with the Board of Auditors to facilitate their validation process.

5. In UNDP, audit implementation progress is monitored and reported based on agreed target completion dates and completion standards. As at 31st October 2009 (the cut-off date for this report), 90 per cent of the recommendations targeted for completion by the 3rd quarter of 2009 or earlier had been fully implemented, while the remaining 10 per cent should be completed before finalization of the financial statements in the second quarter of 2010, or earlier. The details are available in the document posted on the website of the Executive Board together with this report.

Recommendations due in 3rd quarter 2009 or earlier				
Priority	***Target date***	***Fully implemented***	***Partially implemented***	***Grand total***
High	2008, 4th quarter	3		3
	2009, 1st quarter	2		2
	2009, 2nd quarter	8	2	10
	2009, 3rd quarter	20		20
Total high		33	2	35
Medium	2008, 4th quarter	1		1
	2009, 2nd quarter	8	2	10
	2009, 3rd quarter	22	3	25
Total medium		31	5	36
Grand total		64	7	71
Percentage implemented		**90%**		

Recommendations due in 4th quarter 2009 or later			
Priority	***Target date***	***Partially implemented***	***Overtaken by events***
High	2009, 4th quarter	2	
	2010, 2nd quarter	1	
Total high		3	
Medium	2009, 4th quarter	5	2
	2010, 2nd quarter	1	
Total medium		6	2
Grand total		**9**	**2**

6. The audit implementation plan took into account anticipated technical challenges in stabilizing the newly upgraded Atlas system in early 2009.

7. UNDP noted that many of the good practices identified by the Board of Auditors in the area of managing audit recommendations (A/64/98, paragraph 15) are already in place. These included: (a) identifying and monitoring priority audit issues; (b) identifying the causes of recurring audit observations and developing appropriate management initiatives; (c) reviewing progress made by independent bodies such as the Audit Advisory Committee; and (d) establishing time frames and completion standards for the implementation of recommendations.

II. Progress made in addressing the top 11 audit priorities

8. The top 11 audit-related management priorities (see annex) were revised from the original top 15 list, established in 2007, to reflect improvements noted by the Board of Auditors as well as residual or emerging risks raised by both the Board of Auditors and the UNDP Office of Audit and Investigation. The top 11 audit-related management priorities serve to help managers focus on key audit concerns and to address underlying systemic issues. UNDP management has also utilized the half-yearly report of the Office of Audit and Investigation in the Operations Group, chaired by the Associate Administrator.

9. Preliminary internal assessments have revealed encouraging results in the majority of the top 11 audit-related management priorities, but there are still risks to be managed and monitored. In the area of nationally executed and/or implemented projects and nationally executed audit management, improvements were noted in the percentage of audit report submissions and the management of advances. The Office of Audit and Investigation reported that audit reports covering 82 per cent of such expenditure planned for audit had been received by the end of June 2009, compared to 59 per cent by the end of June 2007. In accordance with the recommendation of the Board of Auditors, UNDP has revised the Atlas 'dashboard' to keep better track of the aging of advances forwarded to governments and non-governmental organizations for nationally executed projects. In June 2009, only 4 per cent of such advances were outstanding for more than 12 months, compared with 28 per cent in June 2007.

10. While the net financial impact associated with qualified audit opinion for 2008 is comparatively lower, at 0.45 per cent of total audited nationally executed and/or implemented project expenditure (compared with 0.7 per cent for 2007 and 1.5 per cent in 2006), a handful of country offices collectively accounted for 90 per cent of the net financial impact for 2008. Those offices have been advised to review the reasons for the audit opinions and discuss alternative implementation arrangements with their respective programme governments.

11. The harmonized approach to cash transfers is a risk management approach adopted by UNDP, UNFPA, the United Nations Children's Fund and the World Food Programme for transferring cash to government and non-government implementing partners on the basis of the joint assessment of the financial management capacity of implementing partners. According to statistics gathered by the Development Operations Coordination Office, 122 countries are in various stages of implementing the harmonized approach. By April 2009 a total of 89 countries had reached (or were in the process of reaching) agreement with their programme government to adopt the approach; 89 macro-assessments were completed or under way; 77 countries had completed (or were in the process of completing) micro-assessments, and 57 had developed or were developing audit and assurance plans. The harmonized approach was fully implemented in 19

countries. Besides including its implementation as one of the indicators in the country office 'balanced scorecard', UNDP provided targeted support to country offices with a dedicated resource person for one year, focusing on giving the required boost to the process...

12. In the area of project planning, monitoring and evaluation, key milestones achieved included the launch of the UNDP project planning, monitoring and evaluation handbook, to help practitioners on the ground implement UNDP policies and procedures in project and programme management as described in the corporate programme and operations policy and procedures. The results-based management system has been enhanced to ensure the integrated, transparent reporting of management and development results to the Executive Board. In addition, the UNDP policy and procedures for national implementation by governments will provide much-needed clarity in enhancing the accountability and responsibilities of UNDP vis-à-vis its implementing partners in balancing the capacity-building objectives and fiduciary risks associated with the various implementation modalities. This is expected to complement the harmonized approach to cash transfers and contribute to risk-informed decisions.

13. In the area of procurement management, UNDP plans to build procurement competency and sustainable capacities in its country offices. To ensure field-sensitive responses to special requirements on the ground, especially in crisis or emergency situations, UNDP has appointed regional chief procurement officers, who have procurement authority within defined parameters. In addition, monitoring mechanisms and tools such as the procurement 'dashboard' and the online system of the Advisory Committee on Procurement are in place to protect and enhance the integrity of procurement processes in UNDP offices.

14. To strengthen procurement competency and capabilities, several components of the UNDP procurement strategy are in place in the planning stages. For example, UNDP has established its own procurement certification programme; there is at least one procurement-certified staff member in all UNDP country offices (except for two French-speaking offices, where customized assistance has been provided in furtherance of this goal). UNDP is in the final stages of formalizing an advanced procurement certification programme accredited with an external professional institution. In addition, there is now a regional Advisory Committee on Procurement advisor in all five regions who, together with the Chair of the Committee at headquarters, will provide support to the regional chief procurement officers delegated with procurement authority to approve contracts in their respective regions.

15. One challenge that remains to be solved is that of institutionalizing the procurement planning process for all country offices and headquarters units. This is under way in country offices that have requested a higher level of procurement authority and will be extended to other offices, with the objective of improving integration with programmatic work planning processes in the country offices.

16. In the area of financial and resource management, the key milestones included: (a) Timely reconciliation of all 67 headquarters and 533 country office bank accounts; (b) Clean-up of user profiles in the Atlas system and realignment of the profiles with the revised internal control framework, as part of the Atlas upgrade; (c) By the end of September 2009, more than 94 per cent of UNDP country offices had completed their 2009 mid-year asset certifications. Additional training was provided to asset focal points at country offices and headquarters units to address associated data-quality issues noted in preparation for the closure of the financial accounts; and (d) Current indications are that

towards the end of the 2010-2011 biennium all development projects (assuming an average duration of approximately four years) will reflect cost recovery rates of 7 per cent for third-party cost-sharing and trust-fund projects, and 3 per cent for programme country cost-sharing projects, consistent with decision 2007/16 of the Executive Board.

17. In view of Executive Board decision 2009/15, deferring the implementation of the international public service accounting standards until 2012, the following audit recommendations will be similarly deferred: (a) the recommended reassessment of field accommodation reserves; and (b) full disclosure of actual leave accruals and repatriation grants liability in the financial statements.

18. In the area of human resources management, significant milestones included the promulgation of the UNDP recruitment and selection framework with clear guidance to hiring units and country offices on recruitment and selection process requirements and associated accountabilities, as well as the establishment of a centralized compliance review board in the wake of the Contract Reform. This will ensure proper recruitment processes and quality assurance steps (including academic and professional reference checks) are duly conducted by the hiring units before cases are submitted to the compliance review board prior to extending offers to successful candidates.

19. UNDP made measured progress in engaging the Executive Board, the Audit Advisory Committee and the United Nations Board of Auditors in preparing for implementation of the international public service accounting standards. UNDP aligned its rules, processes and procedures for certain of the standards in an incremental fashion prior to the 2012 date for full adoption. In addition to conducting a policy analysis of the relevant accounting standards, UNDP worked on operationalizing the communication and change strategies including the launching of the relevant website, the planned introduction of computer-based courses on the standards, and the design of a UNDP readiness 'dashboard' to assist UNDP offices in preparing their staff, managers and their offices for implementation of the standards. One of the key challenges was the funding support for both one-time project costs and recurring costs associated with the additional workload in the areas of asset management, receipting, and revenue management.

20. Preliminary results of the status as at June 2009 indicated that country offices were monitoring and following up on some 64 unresolved long-outstanding recommendations. UNDP expects the number of unresolved long outstanding recommendations to be reduced at the end of the next review in December 2009. One of the challenges faced by several country offices relate to recommendations that require the specific reciprocal actions of external parties to UNDP such as the programme governments in the area of the payment of outstanding government contributions to local office costs or recommendations related to inter-organizational cost recoveries.

Annex. Top 11 management priorities in 2008-2009 and audit accountability framework

Top management priorities to address audit issues in 2008-2009

Audit follow-up on nationally executed projects and outstanding advances	Project/programme design, monitoring and evaluation	Procurement management in country offices
Atlas user security and internal control	External tables In-bank reconciliation	Asset management
Trust funds management	Integrity of staff recruitment process	Common services
Preparations for adopting international public sector accounting standards		Long-outstanding audit recommendations

Accountability-responsibility matrix for audit issues

***Who* is responsible and accountable for audit follow up?**		***What* are they responsible for and to *whom* are they accountable?**		
In country office	**At headquarters**	**Management response**	**Management actions**	**Accountability for results**
Director, regional bureau	Director, headquarters bureau	Endorse management response to audit management letter	Provide management guidelines	To Associate Administrator for offices rated 'unsatisfactory'
Resident representative or A.I.	Head of department or OIC	Sign off management response to audit	Direct remediation efforts; decide on headquarters referrals	To director, regional bureau, for actions to avoid another unsatisfactory rating
Deputy RR (Programme)	Deputy director or equivalent	Draft management response; implement required remediation actions	Address related staff competency or office environmental issues	To head of office for programme-specific issues
Deputy RR (Operations)	Operations manager or equivalent	Draft management response; implement required remediation actions	Address related staff competency or office environmental issues	To head of office for operations-specific issues
BOM director, BDP director, PB director, BCPR director, OSG director, OAI director and EO Director		Acknowledge policy reviews (where required)	Formulate and seek approval from Associate Administrator for required changes	To Associate Administrator for quality of policy and follow-up reviews
			Formulate and seek approval for required infrastructure changes or tool enhancements	

A.I. = ad interim; OIC = officer-in-charge; RR = resident representative; BOM = Bureau of Management; BDP = Bureau for Development Policy; PB = Partnerships Bureau; BCPR = Bureau for Crisis Prevention and Recovery; OSG = Operations Support Group; OAI = Office of Audit and Investigations; EO = Evaluation Office.